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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

PROCESSED BY
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For the period from _____ to _____

Commission File Number: 33-28673

Information Resource Engineering, Inc.
(Exact name of registrant as specified in its charter)

| Delaware | 52-1287752 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer ID Number) |

| 5024 Campbell Boulevard, Baltimore, Maryland | 21236 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

(410)931-7500
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes ___ No

As of May 4, 1992, there were 12,440,000 shares of common stock outstanding.



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INFORMATION RESOURCE ENGINEERING, INC.

TABLE OF CONTENTS


| | | PAGE |
|---|---|---|
| PART I. | FINANCIAL INFORMATION | |
| ITEM 1. | BALANCE SHEETS AS OF MARCH 31, 1992 AND DECEMBER 31, 1991 | 3 |
| | STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991 | 4 |
| | STATEMENT OF STOCKHOLDERS' EQUITY FOR THE THREE MONTHS ENDED MARCH 31, 1992 | 5 |
| | STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991 | 6 |
| | NOTES TO FINANCIAL STATEMENTS | 7 |
| ITEM 2. | MANAGEMENTS' DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 8 |
| PART II. | OTHER INFORMATION | |
| ITEM 1. | LEGAL PROCEEDINGS | 10 |
| ITEM 2. | CHANGES IN SECURITIES | 10 |
| ITEM 3. | DEFAULTS UPON SENIOR SECURITIES | 10 |
| ITEM 4. | SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS | 10 |
| ITEM 5. | OTHER INFORMATION | 10 |
| ITEM 6. | EXHIBITS AND REPORTS ON FORM 8-K | 10 |
| | SIGNATURES | 10 |

## INFORMATION RESOURCE ENGINEERING, INC.

### BALANCE SHEETS

| | March 31, 1992 (unaudited) | December 31, 1991 * |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ 584,327 | $ 102,645 |
| Accounts receivable | 116,078 | 389,974 |
| Inventories: | | |
| Raw materials | 87,379 | 80,447 |
| Finished goods | 145,188 | 88,097 |
| Prepaid expenses | 5,818 | 6,101 |
| Total current assets | 938,790 | 667,264 |
| Equipment, net of accumulated depreciation of $91,587 and $83,320 | 120,430 | 88,406 |
| Computer software development costs, net of accumulated amortization of $74,456 and $61,299 | 227,413 | 235,545 |
| Other assets | 5,634 | 5,634 |
| | $1,292,267 | $ 996,849 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable | $ 154,109 | $ 129,447 |
| Accrued salaries and commissions | 26,904 | 39,617 |
| Other accrued expenses | 85,611 | 77,556 |
| Income taxes payable | 65,400 | - |
| Advance billings on contracts | 85,348 | 39,456 |
| Current portion of capital lease obligation | 9,988 | 13,796 |
| Total liabilities | 427,360 | 299,872 |
| Stockholders' equity: | | |
| Common Stock, $.001 par value per share Authorized 25,000,000 shares, issued and outstanding 12,440,000 shares | 12,440 | 12,440 |
| Additional paid-in capital | 1,231,586 | 1,231,586 |
| Accumulated deficit | (379,119) | (547,049) |
| Net stockholders' equity | 864,907 | 696,977 |
| | $1,292,267 | $ 996,849 |

* The balance sheet as of December 31, 1991 has been derived from the audited balance sheet of that date.

See accompanying notes to financial statements.

INFORMATION RESOURCE ENGINEERING, INC.

STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991
(UNAUDITED)

| | 1992 | 1991 |
|---|---|---|
| Revenues: | | |
| System sales | $477,939 | $246,869 |
| Contract engineering | 213,080 | 69,700 |
| | 691,019 | 316,569 |
| Cost of revenues: | | |
| System sales | 94,289 | 86,532 |
| Contract engineering | 24,633 | 26,461 |
| | 118,922 | 112,993 |
| Gross profit | 572,097 | 203,576 |
| Research, development and engineering expenses | 114,165 | 57,674 |
| Selling, general and administrative expenses | 226,059 | 187,176 |
| Operating earnings (loss) | 231,873 | (41,274) |
| Interest income (expense), net | 1,457 | (1,635) |
| Earnings (loss) before income taxes | 233,330 | (42,909) |
| Income tax expense | 65,400 | - |
| Net earnings (loss) | $167,930 | $(42,909) |
| Earnings (loss) per common share | $ .01 | $ (.00) |

See accompanying notes to financial statements.

INFORMATION RESOURCE ENGINEERING, INC.

STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 1992
(UNAUDITED)

| | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED DEFICIT | TOTAL STOCKHOLDERS' EQUITY |
|---|---|---|---|---|---|
| | NUMBER OF SHARES | AMOUNT | | | |
| Balance, January 1, 1992 | 12,440,000 | $12,440 | $1,231,586 | $ (547,049) | $ 696,977 |
| Net earnings | - | - | - | 167,930 | 167,930 |
| Balance, March 31, 1992 | 12,440,000 | $12,440 | $1,231,586 | $ (379,119) | $ 864,907 |

See accompanying notes to financial statements.

INFORMATION RESOURCE ENGINEERING, INC.

STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991
(UNAUDITED)

| | 1992 | 1991 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings (loss) | $ 167,930 | $( 42,909) |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation of equipment | 8,267 | 8,043 |
| Amortization | 13,157 | 5,429 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 273,896 | (65,782) |
| Increase in inventories | (64,023) | (25,586) |
| Decrease in prepaid expenses | 283 | 7,396 |
| Increase in computer software development costs | (5,025) | (41,148) |
| Increase in accounts payable | 24,662 | 43,224 |
| Decrease in accrued salaries and commissions | (12,713) | (4,015) |
| Increase in other accrued expenses | 8,055 | 84,981 |
| Increase in income taxes payable | 65,400 | - |
| Increase (decrease) in advance billing on contracts | 45,892 | (24,515) |
| Total adjustments | 357,851 | (11,973) |
| Net cash provided by (used in) operating activities | 525,781 | (54,882) |
| Net cash used in investing activities - equipment expenditures | (40,291) | (6,675) |
| Net cash used in financing activities - capital lease obligation payments | (3,808) | (938) |
| Net increase (decrease) in cash | 481,682 | (62,495) |
| Cash at beginning of period | 102,645 | 71,641 |
| Cash at end of period | $ 584,327 | $ 9,146 |
| Cash paid for interest expense | $ 902 | $ 894 |

See accompanying notes to financial statements.

INFORMATION RESOURCE ENGINEERING, INC.

NOTES TO FINANCIAL STATEMENTS

**(1) Basis of Presentation**

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and instructions to Form 10-Q and Article 10 of Regulation S-K. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included.

**(2) Income Taxes**

The Company has adopted Statement of Financial Accounting Standards No. 109, Accounting For Income Taxes. The effect of the change in method of accounting for income taxes as of January 1, 1992 had no effect on the Company's results of operations or financial position.

The Company has a loss carryforward of approximately $366,000 for both financial statement and income tax purposes. The effective rate for income tax expense (28%) for 1992 assumes full utilization of the loss carryforward in the current year.

## Results of Operations

### Three months Ended March 31,1992 Compared with Three Months Ended March 31, 1991

Total revenue increased by 118% to $691,019 in the first quarter 1992.

System sales increased approximately 94% to $477,939 in 1992. During the twelve months ended March 31,1992, system sales were approximately $2,212,000 or 110% over the prior twelve month period. Management attributes the increased sales and operating profit to several major new customers and existing customers that are expanding their encryption networks.

Contract engineering revenues increased approximately 206% to $213,080 in 1992. These revenues represent non-recurring engineering for accelerated development of product enhancements. In 1992, the revenues reflect work performed under a purchase order from Citibank N.A. This work will continue in the second quarter of 1992. Since the Company is selective in the enhancement projects that it undertakes, revenues from these projects probably will not exceed $500,000 in 1992.

Cost of system sales increased approximately 5% to $118,922 in 1992. As a percentage of system sales, these costs were 20% in 1992 compared to 35% in the first quarter of 1991. This percentage decrease was due to favorable margins on a portion of one customer order as well as a higher sales volume to absorb fixed costs, the introduction of new products and selective price increases. Management anticipates that in future periods the cost of system sales will approximate 30% of system sales.

Research, development and engineering expenditures totaled $143,823 in 1992 before reduction for contract engineering costs and the capitalization of computer software development costs. Gross expenditures in 1991 were $125,283. This increase reflects additional personnel costs due to expansion of the engineering staff. As a percentage of revenues, the gross expenditures were 21% and 40% in 1992 and 1991, respectively.

Selling, general and administrative expenses increased $38,883 to $226,059 in 1992. While Management has continued to control operating expenses, there have been increases in personnel costs related to increased revenue. As in prior quarters, there was an increase in commission expense associated with the higher revenue. As a percentage of revenues, selling, general and administrative expenses were 33% and 59% in 1992 and 1991, respectively.

The $65,400 income tax expense in 1992 is due to Management's expectation that the Company will be required to pay income taxes this year. The effective tax rate (28%) is based on Management's estimate of taxable income for the year and assumes full utilization of the available loss carryforward by the end of 1992. In 1991, the Company did not pay any income taxes due to the availability of a loss carryforward.

Liquidity and Capital Resources

The Company's marketing efforts have generated several new clients, who are contributing to increased revenues and operating profit. Management believes that anticipated revenue growth combined with continued control of operating expenses will result in a stable level of operating profit, and that the Company has the necessary financial resources to properly manage the expected growth and fund its operations. However, if the growth occurs at a rate which is either significantly faster or slower than anticipated, the Company could experience some liquidity problems.

To address these issues, the Company is exploring the establishment of a line of credit with a commercial bank and/or raising additional funds via an equity offering. There is no assurance that the Company will be successful in raising additional capital should it become necessary or desirable.

INFORMATION RESOURCE ENGINEERING, INC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 2. Change in Securities
None

Item 3. Defaults upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders
None

Item 5. Other Information
None

Item 6. Exhibits and Reports of Form 8-K
None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

INFORMATION RESOURCE ENGINEERING, INC.

May 5, 1992

Anthony A. Caputo
Chairman, Chief Executive Officer
(Principal Executive Officer)

May 5, 1992

David A. Skalitzky
Vice President of Finance
(Principal Financial and Accounting Officer)